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Roundtable

Are buyer/vendor partnerships working?

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Automating the purchasing department

EDI

Caterpillar connects with EDI

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Electronics

A close look: Silicon Valley snapping back

PurchasingWorld®

Helping you manage the business of buying

August 1986 Vol. 30 No. 8

Special Report: Electronics

40 Silicon Valley snapping back
After a devastating recession in the industry caused by soft demand and excessive inventories, the basic electronics industry is making a comeback. Demand projections for computers and communications equipment augur well for the long-term outlook for the entire industry. Look for prices on hardware to come down and software to go up.

Features

36 The many uses of the quotations file
Jeff Pinkerton takes a close look at how you can use a quotations file in your database for better planning, easier access, finer analysis, and better management control.

38 The role of purchasing in construction contracts
The escalation of competitively bid prices caused by design and engineering changes is the biggest headache in these construction contracts. But using appropriate purchasing principles can save a great deal of grief.

45 Lists are only a starting point
PW's latest Survey of the Month shows that buyers are going all out to keep vendors on the defensive. While some prices are expected to rise, shading and discounts in other areas will more than offset these advances.

46 How to choose an application software package
Software for purchasing ranges from very complex to relatively simple packages. But most of them don't work well with an MRP system nor do they adapt easily to purchasing department practices. Here are some tips.

62 Caterpillar connects with EDI
Caterpillar Inc. has become the first non-automotive company to put the Automotive Industry Action Group's EDI format in practice when it went on-line this year with its EDI program. It wasn't an easy task, but the benefits were well worth the effort.

114 Nominate your star buyers for *PW*'s Buyer of the Year award. This is a chance to reward outstanding achievement in your department. Here are the details.

Cover photo courtesy of IBM—IBM is counting on its new megabit chip to be one of the more important technical enhancements to its 3090-series to make it the high-end growth system for the decade (see pg. 43).

38

46

Departments

4 PW Pointers
6 Editorial
8 PW Predicts
17 Datatrak
30 Law
34 PW Transportation Report
38 Negotiations
54 PW Office '86
92 Products
104 Sample Pak
110 Catalogs
112 Literature
113 Ad Index and Classified

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PW PREDICTS

Robert S. Reichard, executive editor

Inflation isn't going anywhere

There's little on the near-term horizon to suggest any significant uptick in the overall inflation rate.

That's not to say that the negative readings of some recent months will continue—the leveling off in oil would clearly seem to rule out that kind of scenario. On the other hand, neither cost or demand pressures seems strong enough to set off a sustained rally.

The labor cost picture bears this out. Some key industrial unions have recently had to settle for relatively small pay hikes. And in other areas—such as steel, copper, and aluminum—wages have actually been cut.

This basic pattern is not likely to change much in 1987—as international competitive pressures continue to squeeze many of the nation's major industries in white and blue collar areas. A new Conference Board survey estimates that office worker raises will average 5.5% next year.

Interest rates also continue to head lower. A recent *Wall Street Journal* study of 30 top economists puts 3-month Treasury bills and 30-year Treasury bonds at only 6.01% and 7.41% by yearend.

These low rates aren't all that hard to explain. Business analysts are quick to point out that even with recent declines, rates adjusted for inflation are still high compared with historical experience.

The raw material segment of the cost equation remains under control. *PW*'s spot industrial commodity index continues to run more than 10% under year-earlier levels.

Don't expect much change either. Oil prices show few signs of sustained near-term turnaround and most metals, chemicals, and plastics remain in the doldrums.

Most Free World economies show few signs of regaining the vigor they displayed in earlier decades. At the same time, many Third World commodity producers have opted to boost output to earn badly needed foreign exchange. Result: a substantial gap between raw material supply and demand.

Wharton Econometric's latest computer readout shows the industrial producer price index rising at these subdued annual rates over the next 12 months: 3Q 1986 (1%), 4Q 1986 (1.6%), 1Q 1987 (1.7%), and 2Q 1987 (1.9%).

Even the capital goods segment of this yardstick is encouraging—Wharton analysts peg the increases at 2.5% over the next four quarters.

Natural gas

The price of natural gas will almost certainly decline further over the next few years.

Behind the continuing fall: a hefty supply excess—a glut that could bring the wellhead price down close to $2/mcf by 1988, 13% under this year's estimated average price. But retail tags will probably fall by only 4-5% over the same 2-year period, according to analysts at the American Gas Association (AGA).

Market balance isn't likely to be achieved anytime soon. The AGA puts the current surplus at close to 2.5 trillion cubic feet—about 14% of the industry's current potential.

There has been talk about the "supply bubble" bursting in a few years. But any return to the tightness of a few years ago seems remote because the nation has many large and diverse reserves that can be tapped.

And Canada could provide about 1.5 tcf a year, or nearly 6% of current U.S. demand. Canadian shipments in 1985 were only 935 bcf. With the new Canadian policy of encouraging exports to the U.S., this level should rise in the future.

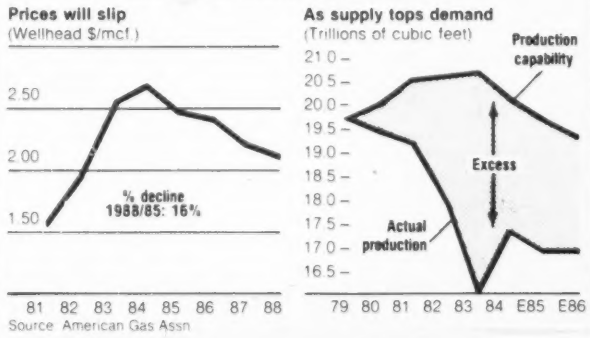
Also, demand has been hurt by the recent oil price tumble. The Department of Energy (DOE) estimates that total U.S. consumption could be off by more than 1% for 1986 as a whole.

On the other hand, the worst seems over. In fact, a turnaround may already be in the works. The DOE study, looking at quarter-by-quarter trends, sees as much as a 4-5% increase in use over the 12-month period ending next June.

The improving picture is also being helped by the changing price relationship with coal (where tags should remain relatively flat) and with electricity (where some small rate increases seem likely).

Another bullish note: Because of the encouraging price trend, the outlook for some innovative uses for natural gas has improved. The AGA sees good potential in natural gas cooling for the commercial market, gas-fired cogeneration of electricity in the commercial and industrial markets, combined-cycle power plant applications for generating electricity, and the use of gas as a vehicle fuel.

Natural Gas: more weakness ahead



Source: American Gas Assn

PW PREDICTS

Aluminum

CURRENT SITUATION: Demand has slowed a bit after considerable hedge buying earlier this year. The summer lull could be a factor. Prices have stabilized at considerably higher levels than those of last fall. Ingot continues to move in the upper 50s and can stock has recently advanced about 7%. While there still are some weak spots—minor discounting in mill products and trims—moves have been relatively minor. **Industry analysts put overall aluminum tags (ingot plus fabricated products) up 10-15%** *vis a vis* early 1986 levels.

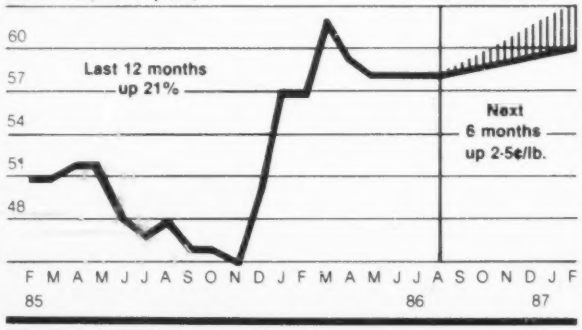
DEMAND: Look for a good year. The domestic industry should ship close to 16 billion lb—well above the 15.3 billion lb moved in 1985. Free World consumption will be up 5%, while domestic advances will be in foil, rod, bar, and wire. Packaging will account for more than 25% of total use. **The long-term prognosis is also bullish**—with average annual gains of near 3.5% seen through 1990. Increased use of the metal in autos will be a big factor.

SUPPLY: Strike threats are over so there should be ample supply—despite reductions in global stocks of primary metal (down to 1.7 million tons at last report). **Free World operating rates (85%), projected capacity increases, and recycling—all indicate a no-sweat situation.** The only real concern on availability expressed by buyers is for domestic can sheet—prompting a push for longer-term contracts.

PRICE OUTLOOK: The end of labor strife could limit near-term advances. Market ingot tags could easily slip a bit in the next few months before bouncing back to near 60¢/lb by early 1987—a far cry from the 75¢/lb levels of early 1984. Low Third World production costs and fairly stable energy costs should also put a cap on prices. **Look for ingot and fabricated price increases of about 3% for 1987—in line with the overall inflation rate.**

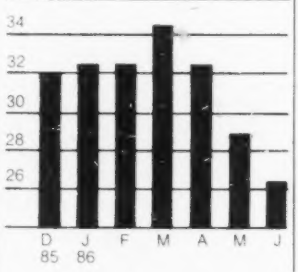
Aluminum ingot

(Cents/lb.) **(Market price)**



Low-density polyethylene

(Liner grade-market price ¢/lb.)



Polyethylene

Slippage is reported everywhere. The latest price readings with percent decline from early 1986 levels are as follows: liner grade LDPE, 26-27¢/lb (down 18%); butane-type LLDPE, 25-26¢/lb (down 16%); blow molding HDPE, 28-30¢/lb (down 12%); injection molding HDPE 25-27¢/lb, (down 13%). Demand, however, remains quite strong with these percentage increases over last year's levels currently anticipated for 1986 as a whole: LDPE (3%) and HDPE (5%). And next year looks even better—with gains estimated in the 5-6% range for both LDPE and HDPE.

Ethylene

Demand remains quite brisk—with year-to-date running in the 7-8% range. Nevertheless, recent attempts to boost prices have been unsuccessful—as contract quotes remain in the 14-14.5¢/lb range (off 4¢/lb from levels earlier this year). Spot sales are said to be going for as low as 13¢/lb. Nor is any near-term boost likely as feedstock costs remain weak (ethane is currently down near 5.5¢/lb—off 3/4¢/lb from first quarter levels). Elsewhere on the petrochemical scene, butadiene makers also see continued easiness—and even further erosion from recent 13-14¢/lb contract levels.

Steel

Fears of major supply disruptions exist as mills ink new pacts or extend current contracts while negotiations continue. Prices, in the meantime, have turned easier—with a recent 3% boost postponed. Some erosion of an earlier 8% increase is also reported. Demand hasn't been all that robust either as earlier hedge orders are worked off. In any event, third quarter domestic shipments will probably be down as much as two million tons (to nearly 17 million)—with totals for the year expected to reach only 71 million, around 2 million tons under last year's levels.

Electronic equipment

Relatively slow overall growth is seen for the current year—only about 3.5% in real or physical terms, according to Henderson Ventures. That's well under the big 12% gain of 1984 and even under last year's disappointing 5% advance. Nor is next year going to be all that sensational—with on-

ly about a 6.5% increase anticipated. The big electronics consulting firm also breaks down projections into major markets. 1986's current dollar gains (as opposed to constant dollar or real gains) follow: communications (7%), computer and office (6.2%), industrial and instrument (6.2%), military (8.2%), and consumer (3%).

Imported crude oil

($/barrel)

1985 1Q	27.26	1986 1Q	19.60
1985 2Q	27.50	1986 2Q	13.00
1985 3Q	26.56	1986 3Q	12.00
1985 4Q	26.84		

Petroleum

Don't expect any significant bounceback in crude oil. Indeed, tags could well edge lower over the next few months—testing the $10/barrel barrier—as OPEC production rises to more than 19 million barrels/day. This, in turn, should put new downward pressure on refined products—with gasoline holding under $1/gallon through the end of the summer—and with perhaps even some drops after that as demand begins to tail off. True, some recovery is likely by early 1987. But even then it's highly unlikely that crude will move over $12/barrel—as the world remains awash in a sea of oil.

Computer chips

Sales have slowed after an early 1986 rally. Result: Prices are again beginning to drop—with price tags on some key memory devices falling by at least 10% over the past month or so. Especially good buys are reported on 256K random access memories. Another sign of lower prices ahead: Intel is promising to cut quotes on its million-bit EPROM to $22 by the middle of next year—a hefty 63% drop from the current $60 quote.

Copper

Strike settlements without any appreciable loss of metal just about rules out any sustained rally. Seasonal factors could also be a drag (third quarter consumption is usually down 200,000 tons *vis a vis* other quarters). In any case, there's little indication of any supply problems—with 1986 Free World consumption expected to exceed demand slightly. And further excesses are expected for 1987-88. As such, prices should remain under pressure with little chance of the metal breaking through the 70¢/lb barrier. Substitution (by fiber optics in the telecommunications area and by aluminum in the auto market) isn't calculated to strengthen markets, either.

Personal computers

Prices are nosediving again—with unofficial cuts by IBM knocking as much as 20-25% off some PCs. Example: Some stores now sell the basic model with a monochrome monitor for only $1,495, some $500 under

Paper and paper products

CURRENT SITUATION: Markets are more buoyant—demand is running 4% ahead of last year for board products and 1% ahead in paper. The gain for corrugated boxes (shipment basis) is 5% to date. **Prices are moving up.** A $320/ton list for linerboard has been posted—though it may take a few months for it to become fully effective. Uncoated white papers are firming, too.

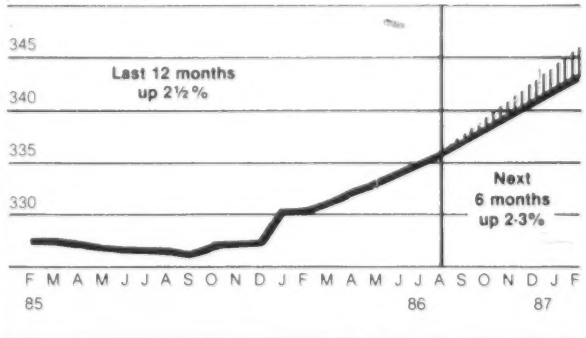
DEMAND: Increases will continue to yearend because of increased consumption and the weak U.S. dollar which is increasing exports and reducing imports. **Best bet: an overall paper and paperboard consumption gain of 1.5-2%, with production up by 3%** (to over 69 million tons), as exports advance 10% and imports fall 5%. **Production gains will be uneven.**

SUPPLY: Operating rates show improved market balance. They are currently near 93% (FRB basis)—up from 90% a year ago. **There should be ample supply**—the preferred rate is 97%. These utilization rates show an uneven pattern: unbleached kraft linerboard (91%), solid bleached board (89%), recycled paperboard (87%), uncoated groundwood (94%), uncoated free sheet (93%), and coated papers (87%). **New capacity will add to supply—one estimate calls for an increase of 2% this year and 2.5% in 1987.**

PRICE OUTLOOK: Better supply-demand balance—helped by a reduced paper and paperboard trade deficit—points to continued increases—with another 2-3% added onto overall averages by yearend or early 1987, when linerboard should be $320/ton. This should put pressure on corrugated boxes—though percentage advances in this sector should be under those for linerboard. **1987 will be similar—add 2% onto overall paper and board tags.**

Paper & Products

(Index: 1967 = 100)



PW PREDICTS

R&D spending

Figure on a big jump in research and development spending this year. If a new McGraw-Hill survey is correct, the nation's industries will shell out a whopping $88.4 billion in 1986—up 10.9% from last year.

Actually this is a continuation of a long-term trend—gains have averaged in the double-digit range for nearly a decade now. And preliminary indications point to another 12% rise by 1988.

Another plus is that most of the current outlays represent real gains. Subtract a relatively small 2.5% inflation factor from the 1986 estimate and you end up with a solid 8.5% advance. That's a far cry from the 1964-78 period when real gains ran under 1% a year.

Why the boom? A good portion can be attributed to a change in attitude on the part of America's corporate leaders. Faced with increasing world competition, they are now ready to do battle by coming up with the improved products to compete in both domestic and offshore markets.

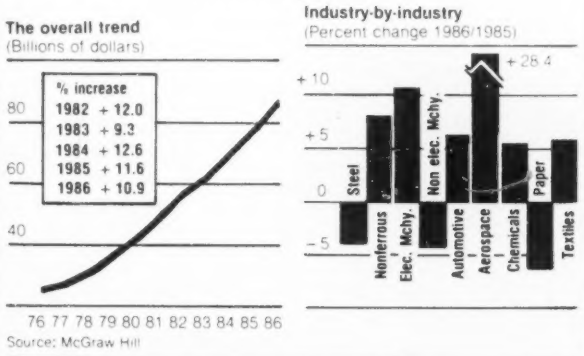
And it shows up in the percentage of the sales dollar now earmarked for R&D. This year, the share is 3.5%—up substantially from the 2.1% low in 1978.

There has also been a shift in emphasis away from new hardware (capital spending) to new processes and products. Note that where R&D amounted to only 15% of capital spending in 1979, it now accounts for 23%.

The gains projected for the current year are also somewhat uneven. While aerospace, bolstered by continuing government support, will register a 28.4% gain in 1986, a few industries are actually pulling in their horns —notably steel, nonelectric machinery, and paper—where declines of 4.3%, 4.8%, and 5.7% are projected.

But even here there's hope for the future. All three of the above industries plan to turn on the R&D spending spigot before too long—with outlays expected to rise as follows some two years hence: steel (4.7%), nonelectric machinery (3.9), and paper (7.0%).

No stinting on R&D



Source: McGraw Hill

the official $1,995 list. The competition isn't taking this lying down, either. Tandem, for example, has entered the IBM compatible field with prices as low as $1,155. Further reductions on existing models at the high end IBM AT and low end of the line have been announced.

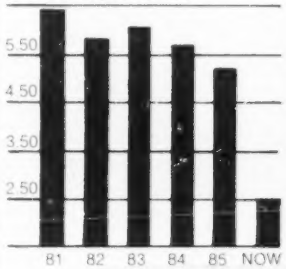
Zinc

The plating and alloying metal has taken off and now commands well over 40¢/lb—close to 10¢/lb above levels prevailing late last year. Behind the run-up: strikes, mine shutdowns, and relatively low producer inventories. Also indicative of tightness: Free World mine output was off 9.7% during the first four months of 1986—at a time when consumption was rising 3%. Then, too, third quarter demand has been running better than expected. On the other hand, there's some feeling that the run-up has been overdone—and that the drop-off into the under 30s range is a strong possibility by late fall.

Lead

Prices seem to be stabilizing in the low 20s—well above levels prevailing in February and March when the heavy metal was commanding only 18¢/lb. Behind the advance: strikes and low stocks. U.S. inventories are off close to 40,000 tons over the past three months. One potential cap on prices: Higher quotes could mean some additional output from secondary producers. If this happens, look for backing and filling in the current price range through Fall. Beyond that, some easing is possible. But given lower global stocks, any return to last year's lows seems highly unlikely.

Tin prices
(N.Y. dealer price $1 lb.)



Tin

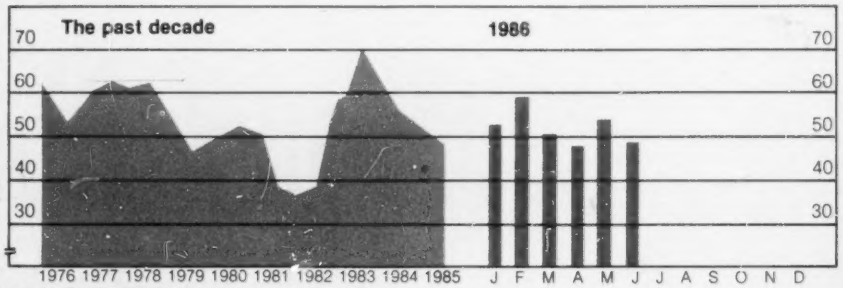
The metal which has lost more than half its value since last autumn—and is currently quoted at $2.50/lb—could well drop further (to $2.00/lb) within the next 6-12 months. Behind the continuing slide: 1) failure of producers to cut production enough to bring supplies back into balance with demand and 2) likely sales by banks and brokers who are anxious to unload their heavy (40,000 ton) holdings. Demand is expected to remain weak—with U.S. usage this year put at only 52,000 tons, more than 5,000 tons below the high recorded back in 1984.

PW Predicts keeps you ahead on key issues in buying

BUSINESS DATATRAK

NAPM business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Source: Commerce Dept.

KEY ECONOMIC TRENDS

Playing it close to the vest is still best

It is becoming increasingly difficult to make a case for any significant near-term advance in overall growth rates.

While the economy is still moving ahead and businessmen remain quite confident, there seem to be too many soft spots to permit the 4%+ annual rates of gain for the second half that many economists had been betting on just a few months ago.

Near-term factors calculated to keep any gains over the next few quarters to very modest proportions include:

- **Continuing close-to-the-vest inventory policies:** The impetus is coming from short leadtimes, ample availability, and sales uncertainties. Note the continuing downturn in stock-sales ratios (see chart). While obviously healthy for the long pull (by ruling out excesses), it does inhibit current production.
- **Flat capital spending:** This reflects low factory operating rates and uncertainty over tax reform. As of now, plant and equipment outlays will be hard pressed to equal 1985 levels in physical or real terms.
- **Rising home costs:** The housing boom may be about to level off as mortgage rates bottom out and higher home asking prices reduce the number of potential buyers who can afford these big-ticket items.
- **A still-huge trade deficit:** The gap has begun to stabilize, but at very high levels—certainly high enough to inhibit domestic production of cars, steel, machinery, and a host of other major product lines.

Factory managers seem to be recognizing all these restraints, and are not really preparing for any big production gains. This is readily apparent from industrial distributor sales (consisting primarily of MRO items which tend to lead industrial production by a few months). Figures here are currently running a bit behind last year—distributors say to expect the same kind of pattern for August and September.

Factory overtime is yet another indicator that there is little pressure to increase production. Latest readings here are under late 1985-early 1986 highs.

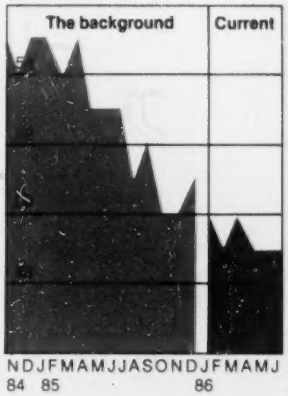
But perhaps the most disappointing development in recent months has been the lull in factory orders. They have been relatively stable now since the end of the first quarter.

This lack of buoyancy also shows up in the N.A.P.M. Business Barometer (see chart). It is down in the neutral "50" zone (49.6 specifically)—signifying that there probably won't be a real push in overall activity during the next few months.

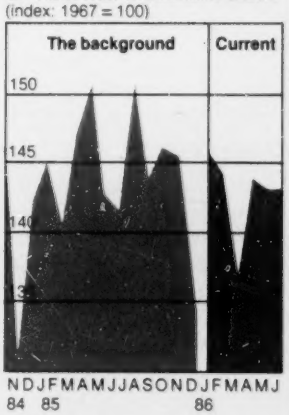
Given all of the above, some of the pollyanna-ish forecasts made a few

Leading indicators

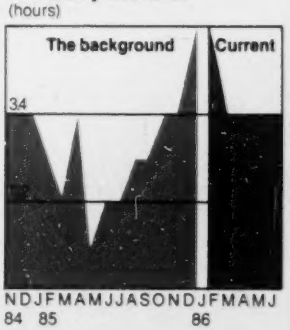
1. Stock-sales ratio
(purchased material durables)



2. Industrial distributor sales
(index: 1967 = 100)



3. Factory overtime
(hours)



months ago now look way out of line. Best bet: production gains of only 2-2.5% at annual rate for the rest of the year—enough to keep GNP in uptrend, but little more than that.

On the other hand, the predictions into 1987 still have to be regarded as bullish. Low inventories will prevent any major stock imbalances from developing. And, by then, the delayed effects of a weakening dollar should be felt in the form of falling imports and rising exports. This will almost certainly have positive impact on domestic production.

Accept the above assumptions and *PW*'s preliminary forecasts for 1987 shape up like this: GNP—up 3-3.5%, and industrial production—up 4-4.5%.

Big guys are still optimistic

The economy may not be growing all that fast these days. But the majority of businessmen remain quite optimistic.

A new nationwide Dun & Bradstreet survey finds that 73% of the more than 1,400 queried executives expect 3Q sales to top year-ago levels. The number far outweighs the 7% who see declines (20% anticipate no change).

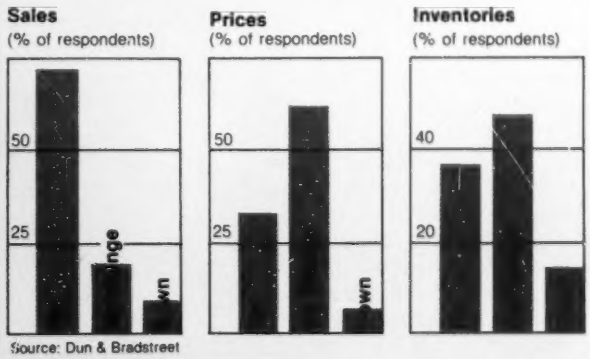
A study by the Conference Board tells much the same story. The group's measure of Business Confidence is put at 61—relatively high and unchanged from readings reported three months ago.

The D&B survey also provides some helpful hints on where other key economic indicators may be heading—with these key findings reported:

- **Prices:** Upward pressures may actually be weaker in the current quarter than in the April-June period. Only 31% of queried manufacturers now see increases *vis a vis* a year ago—just under the 35% who anticipated year-to-year increases three months ago when a similar question was asked.
- **Inventories:** Any buildup will be quite modest. The 36% of respondents who anticipate year-to-year buildup in the third quarter offset the 48% who see no change and 16% who are actually planning on drawdowns.
- **New orders:** Some improvement is noted here. Thus the third quarter finding—73% up and only 4% down from last year—would seem to assure a continuing near-term production.

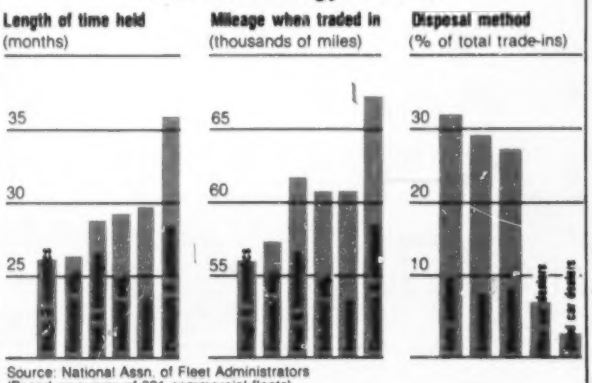
The Conference Board survey adds some additional upbeat information on capital spending. It finds that businessmen are not about to pull back on the reins. In any event, about 70% of queried firms report no change since the beginning of the year—with the remaining 30% about equally divided between those raising and those lowering their spending sights.

How businessmen view the 3rd quarter
(Compared to year earlier)



Source: Dun & Bradstreet

Fleet car strategy: 3 views



Source: National Assn. of Fleet Administrators
(Based on survey of 221 commercial fleets)

Fleet cars going further, longer

The typical fleet car is getting plenty of use these days. According to a recent survey by the National Association of Fleet Administrators (NAFA), the average vehicle is being held for about 2.5 years and is being driven 61,029 miles.

Zero in on certain industries and the figures are even bigger. Thus the fleets of chemical and petroleum companies are being held three years and are driven more than 67,000 miles before being traded in (see chart). The typical government auto is held for almost 5.5 years and is driven close to 92,000 miles.

The new NAFA survey also takes a good hard look at disposal strategies. Some of the key findings:

- **Disposal condition:** Little is done to upgrade a car before selling it. The vast majority of queried fleets (85%) do not recondition cars and almost all (96%) sell cars "as is."
- **Disposal responsibility:** In the commercial fleet sphere, some 56% of the cars are sold by fleet managers—with leasing companies disposing of another 31%. Smaller percentages are sold by fleet management services (5.8%), company field offices (4%), and the vehicle operator (3.2%).
- **Disposal methods:** Some 32% of commercial fleet cars are sold at auto auctions, 29% to the em-

ployee, 28% to wholesalers, 7.5% to new car dealers, and 3.5% to used car dealers.

■ **Sales price to employee:** Price is determined most often (42.2%) by use of the Automotive Market Report (AMR). Other price-determining methods (with the percent of cars shown in parentheses); NADA wholesale prices (15%), wholesale value (10%), book value (6%), market value (5.5%), Black Book value (5.5%).

CURRENT PRICES

Prices still climbing down

Add one more month to the steady string of level or lower-than-level industrial price readings.

This key index of purchasing costs is currently running more than 4% under yearend 1985 levels. That's more than 8% on an annual basis—making this the sharpest decline in this bellwether inflation yardstick since 1949.

And once again the declines over the last 30 days are pretty broadly based—with some 20 of the 50 or so regularly monitored product lines ending up in the minus column.

About the only difference this time around is the leveling off in energy prices after an eye-opening first half slide. Even in that sector there are still some significant weak spots—namely natural gas which fell 5.8% over the month.

Capital equipment tags are also rather flat—rising only 0.1% over the month—as small increases in metal-cutting machine tools, mining machinery, and agricultural equipment offset continued easiness in oil and gas field equipment. Also encouraging in this sector: The overall increase over the past year comes to less than 2%.

Another surprising development: the lack of upward pressure in construction material prices—despite the continued housing boom. Indeed, averages actually fell more than 0.3% over the month, spearheaded by declines in lumber, plywood, asphalt products, gypsum products, plastic plumbing, and metal pipe fittings. Equally noteworthy here: Averages are running close to 1% under year-earlier levels.

Some of the other key areas, meantime, turned in mixed performances. Thus while inorganic chemicals stabilized (pri-

This month's breakdown

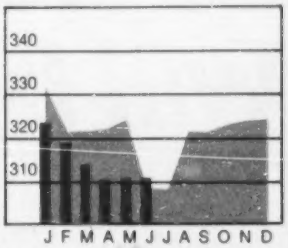
	Latest level (June)	% change from: Month ago	Year ago
Bearings	356.0	0.1	1.0
Bolts, nuts, etc	277.2	−0.6	0.0
Chemicals, inorganic	296.3	0.0	−0.9
Chemicals, organic	322.0	−1.6	−10.0
Concrete products	325.4	−0.2	1.2
Corrugated cartons	263.4	−0.1	−4.4
Cutting tools, small	291.4	−0.1	1.7
Electric lamps (bulbs)	347.1	0.3	1.1
Electronic components	201.0	0.2	1.9
Fans and blowers	367.8	1.3	2.5
Foundry and forge products	364.5	−0.1	0.2
Fuel oil (residual)	499.8	−4.5	−44.1
Furniture, commercial	315.8	−0.2	2.6
Gasoline	392.6	3.7	−33.5
Glass, flat	229.6	−0.2	2.1
Glass containers	399.6	0.0	4.7
Gypsum products	353.8	−1.8	4.6
Hand tools	383.3	0.1	2.6
Hand tools, power driven	238.9	0.9	3.6
Industrial furnaces	395.3	−0.5	2.7
Integrating and measuring instruments	235.3	0.0	1.5
Internal combustion engines	353.3	0.2	1.8
Lubricating oil	373.0	1.7	−0.2
Lumber millwork	320.6	1.2	2.8
Material handling equipment	295.9	−0.2	0.3
Metal containers	361.0	0.0	0.8
Metal mill shapes (nonferrous)	300.8	0.2	−3.6
Metal tanks	302.3	−0.4	−1.0
Motors and generators	349.6	−0.6	−0.7
Motor trucks	311.1	−0.6	6.0
Office and store equipment	154.3	0.1	−0.4
Paperboard	268.6	0.9	−1.9
Paper boxes and shipping containers	266.1	−0.1	−2.7
Paper office supplies	237.4	−0.9	0.6
Paint	281.2	0.1	1.7
Plastic resins	295.2	0.2	−3.9
Precision measuring tools	268.0	0.4	1.8
Pumps and compressors	361.1	0.4	1.3
Refractories	373.2	0.0	0.5
Rubber belts and belting	337.4	−0.2	−5.3
Scales and balances	231.3	0.1	0.8
Steel products	348.1	0.1	−4.3
Switchgear	286.7	0.2	2.3
Textiles, synthetic fibers	149.4	−0.3	−4.4
Textiles, gray fabrics	151.5	0.6	−0.1
Tires and tubes	235.3	−0.2	−0.8
Transformers and power regulators	232.6	0.0	0.0
Welding equipment	300.9	0.2	3.2
Wire and cable	206.5	−0.2	1.6

Industrial prices

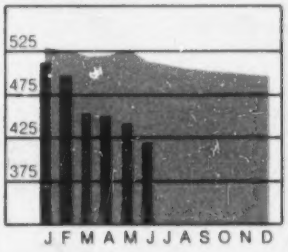
(Index: 1967 = 100)

1985 ■ ■ 1986

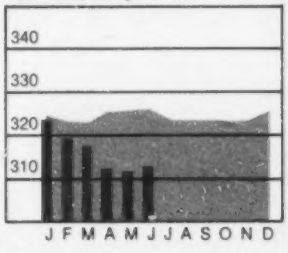
All items



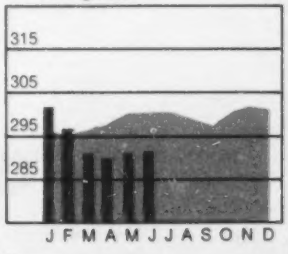
Raw materials



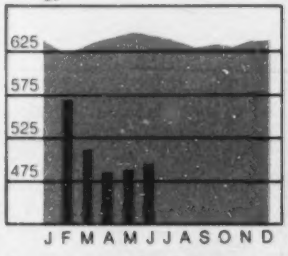
Semifabs, components



Finished goods



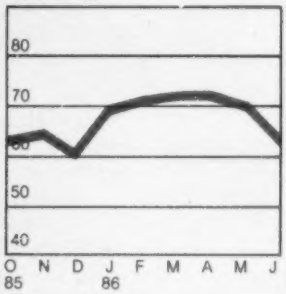
Energy



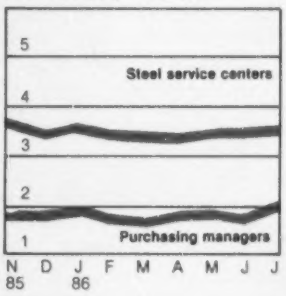
Source: Bureau of Labor Statistics

Steel

Operating rates

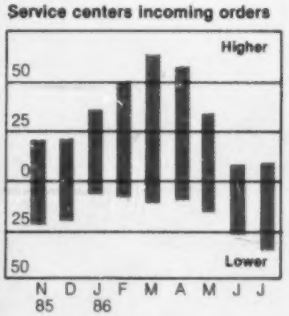


Inventories
(Months supply on hand)

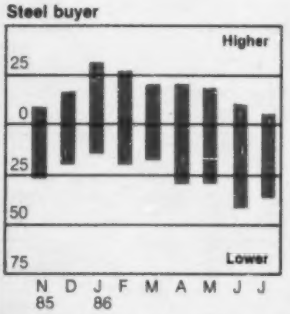


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

marily because of firming chloralkali tags), organics continued to slip—falling another 1.6% over the month.

Declines in petrochemical building blocks like ethylene and benzene have been even sharper.

Metal tags have also been moving in all different directions. Thus while zinc, lead, and platinum advanced, weakness developed in steel, copper, aluminum, and some minor metals such as cobalt and selenium.

On the other hand, some modest firming was noted in the paper area. Wood pulp and paperboard both moved up—with the latter expected to put some upward pressure on corrugated box prices over the next few months.

STEEL SCENE

Prices could be flattened more

Steel markets aren't quite as buoyant as they were a few months ago.

Not only are buyers whittling away at some of the early 1986 price increases on flat rolled products, but service centers are now talking about possibly lower replacement costs before the year is out.

Thirteen percent of distributors responding to the latest Steel Service Center Institute (SSCI) survey, for example, think they may be paying less than current levels for their stock replacements within six months. That compares to only 2% who felt that way just one month earlier.

Conversely, the number of service centers expecting price increases has been falling steadily. As recently as April, some 88% of these distributors were reconciled to price boosts six or so months down the pike; the comparable figure today has dropped to only 20%.

The easiness can be traced to a combination of factors including 1) less-than-anticipated overall demand, 2) some inventory paring by both buyers and service centers, and 3) more-than-ample supplies—a situation aggravated by cheap imports which continue to come in at an annual rate of more than 20 million tons.

The lackluster demand can best be appreciated by looking at the SSCI survey and a similar one conducted by the NAPM steel buyers group. The service center study reveals that more than one out of every three distributors anticipates reduced incoming orders over the next three months. That's the highest such percentage in a year and is well above the 10% and under figures noted during the first four months of the year.

One of the problems, according to SSCI president Andrew G. Sharkey, is weakness in some non-flat rolled product areas—as both defense orders and non-residential construction ease off. He adds, "there are many soft spots throughout the manufacturing industry—with very few really strong industry groups."

Buyers are equally bearish. Specifically, the 36% expecting a decline in their steel purchases over the next three months is six times as many as the small 6% who contemplate increasing their take of the metal.

Reduced buying, however, isn't entirely due to less-than-anticipated consumption. Equally important is the tendency on the part of both service centers and buyers to cut back on their steel inventories. Many PMs, for example, are determined to work off tonnages that were purchased as a strike hedge earlier this year.

This hedge may be one reason why PM stocks are again over the two-month level. And it helps explain why 42% of those surveyed now rate their holdings as "too high."

What makes this figure even more impressive is the fact that not one single buyer considers his current tonnage as being "too low." It is not surprising that nearly half plan to reduce stocks in coming months—and not a single buyer plans to accumulate stocks.

...continued

Import prices
(Compared to domestic)

Steel buyers

ABOVE 24%
SAME 36%
SLIGHTLY BELOW 40%
SUBSTANTIALLY BELOW 0%

Service centers (carbon)

ABOVE 0%
SAME 55%
5-10% BELOW 45%
10-20% BELOW 0%
OVER 20% BELOW 0%

The picture is much the same for service centers. Some 62% of these middlemen rate their stocks as being "too high"—not unexpected given three consecutive monthly rises in their stock/sales ratio.

But demand isn't the only thing putting downward pressure on prices. Excess supplies are just as significant. The AISI estimates that the current industry operating rate is only in the 60-65% range—virtually guaranteeing a continued buyers' market.

Adding to the supply glut and putting even more pressure on prices is the still-hefty inflow of cheap foreign steel. At last report some 40% of queried buyers said they were still seeing price breaks on foreign metal.

Again, this is confirmed by service centers—45% of these distributors now report lower-than-comparable U.S. prices on carbon steel imports. For stainless steel, the figure zooms up to nearly 83%—with 17% putting the break in the rather significant 11-20% range.

PROCUREMENT STATUS

Slow demand cures summertime supply blues

Normal summer supply headaches (caused by plant vacation shutdowns) are conspicuous by their absence because demand has been running under earlier expectations.

The current easy situation is illustrated by the basically flat pattern in both *PW*'s exclusive leadtime index (currently at the neutral 50). The few items that did stretch are offset by shrinkage in a few scattered products, and the N.A.P.M. speed-of-delivery index reveals that an overwhelming 89% of respondents report no change from month-earlier levels.

Purchasing managers responding to *PW*'s latest procurement status survey don't see any dramatic changes ahead. As one Midwestern buyer observes, "Demand may increase a bit with the usual fall pickup, but with operating rates stuck in the low 80% range and importers still knocking at our doors, I can't see any significant tightening in the months immediately ahead."

Latest production and capacity projections back up this thesis. The 2-2.5% increase in output (at annual rate) anticipated for the remainder of the year will be pretty closely matched by expected gains in new capacity. Don't expect any appreciable change in overall factory utilization rates.

Another sign of problem-free procurement is the latest N.A.P.M. business survey tabulation which shows that only one item, titanium dioxide, is in short supply. The point to keep in mind: Titanium has been the only item on the "tight" list for 17 consecutive months.

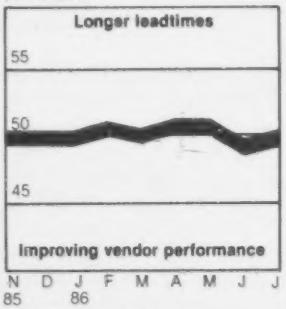
Also, as might be expected, nobody seems to be in a hurry to build up inventories. The latest rundown shows parers outnumbering accumulators by a 2:1 margin (24% cutting and only 12% adding).

Further confirmation comes from The Commerce Department. The stock/sales ratio for purchased durable materials (a time-tested indicator of buyer stocking strategies) is extremely low. In fact, it has actually been falling—with the latest level slipping 6% under early 1985 peaks.

Monthly procurement status report

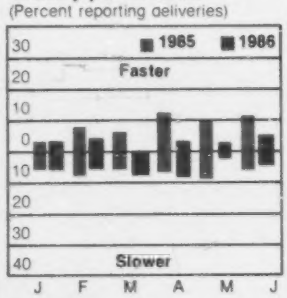
Leadtime index

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



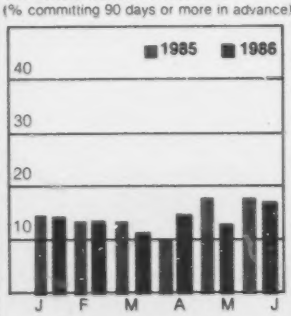
Delivery performance

(Percent reporting deliveries)



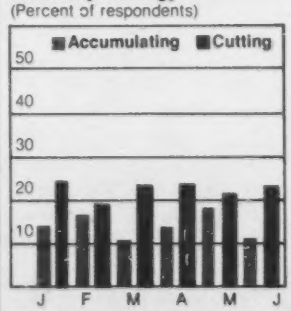
Forward commitments

(% committing 90 days or more in advance)



Inventory strategy

(Percent of respondents)



Source: NAPM

Leadtimes and availability

Chicago: Regular coated paper is out to 6-8 weeks but offset types are unchanged at 4-5. Fractional stretchout in chlorine—to a week. But aluminum has moved in a week (to 12). No change in electronics: capacitors (10-19), PCBs (6-12), resistors (6-12), and ICs (16-22).

Cleveland: A few changes. On the upside (with weekly waits): glassines and greaseproof papers (4-5), coil coating paint (3) and PVC resins (1-2). But plastic packaging has slipped (to 4-5). No changes in other packaging—2-3 weeks for corrugated and folding cartons. Ditto for lumber (1-2).

Los Angeles: Specialty wires stretched out 2 weeks (to 6-8). But pumps have come in signficantly (to 8-10). Metals remain unchanged: Galvanized steel (12-14), grey iron castings (8-10), brass castings (6-8), and stainless coil (12-14). No change in fasteners (6-8 domestic) and standard bearings (20-24).

Houston: Shop fabricated carbon steel pipe has halved its lead (to only 1-3 months). More modest shrinkage (to 2-5 months) is also reported

in alloy steel pipe. Transformers and flow metering and process instrumentation remain steady at 4-7 and 0-10 months respectively (with the upper range waits for specialized types).

Philadelphia: There has been a tendency for electric and office items to come in. Examples (with new weekly waits): Fractional horsepower motors (8-10), disk drives (8-12), printers (10-12), fuses (6-8), power supplies (12-16), and ICs (8-10). But moving out are relays (8-12), and custom transformers (14-18).

Pittsburgh: Painted seals have come in considerably (to 3-5 weeks). A shrinkage of the same magnitude is noted in manganese (to 4). But most other alloying materials remain unchanged. Elsewhere little change for plastic resins (5-6), mill quantities of copper products (6), steel strapping (2-3), and corrugated (3-4).

Leadtimes (in weeks)

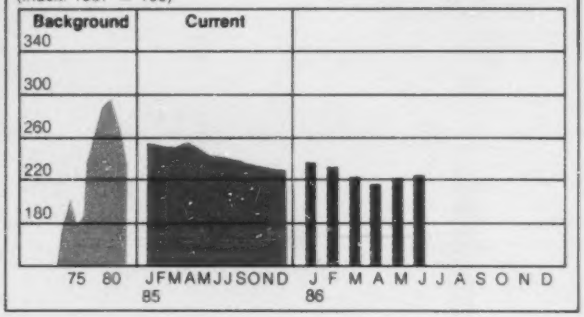
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	7½	7½	7½
Plate (Phil)	3½	3½	3½
Plate (Chgo)	2½	2½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	4	4	3
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	7
Galvanized (Chgo)	7½	7½	7
Structurals (Chgo)	4½	4½	4½
Structurals (Hous)	17	17	17
Tubing (Phil)	5½	5½	5½
Grey Iron Castings (LA)	9	9	9
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14½	14½	13
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	9	11	11
Motors (Phil)	9	10	10
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	1½	1½	1½
Plywood (Chgo)	1½	1½	1½
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅓	⅓	⅓
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	1½
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	1½	1½	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	3½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	12	13	11
Aluminum Plate (Chgo)	12	12	10
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	12	12	9
Brass Castings (LA)	7	7	5
Brass Rods (Chgo)	7½	7½	6½
Brass Sheet (Chgo)	5	5	4
Brass Tube (Chgo)	8	8	7
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	7	5	5
Zinc (Pgh)	2	2	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	48	48	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	7	7	5
Fasteners, Std. (Phil)	2½	2½	1½
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	21
Heat Exchangers, Hi-pressure (Hous)	26	26	33
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	2½
Pumps (Hous)	24	24	24
Pumps (LA)	9	13	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

Latest month	224.5
Month before	221.3
Year ago	242.9



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	23.95
Steel, bars, Pitts., cwt.	23.95	23.95	23.95
Steel, bars, C.R., Pitts., cwt.	31.00	31.00	29.25
Steel, plates, Pitts., cwt.	18.25	18.25	23.25
Steel, plates, H.R., Pitts., cwt.	18.25	18.25	23.25
Steel, sheets, C.R., Detroit, cwt.	25.90	25.90	27.10
Steel, strip, C.R., Chi., cwt.	36.18	36.18	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.550	.585	.463
Antimony, N.Y., dealer, lb.	1.13	1.32	1.27
Beryllium-copper, cost ingot, lb.	5.35	5.35	5.35
Brass, red, 85%, [sheet], lb.	1.28	1.32	1.29
Brass, yellow, [sheet], lb.	1.23	1.27	1.24
Cadmium, N.Y., dealer, lb.	1.05	1.19	0.80
Copper, electrolytic, wire bars, refd., lb.	.64	.68	.66
Copper sheet, over 24 in., lb.	1.37	1.41	1.38
Lead, common, N.Y., lb.	.220	.205	.185
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.48
Mercury, 20 fl. lots, N.Y., fl.	239.00	244.00	308.00
Molybdenum, oxide, dealer, lb.	2.85	2.70	3.31
Nickel, cathode, dealer, lb.	1.93	1.94	2.50
Platinum, dealer, oz.	437.00	443.00	264.00
Silver, N.Y., oz.	5.08	5.47	6.05
Tin, N.Y., dealer, lb.	2.58	2.57	5.60
Zinc, Prime West, East St. Louis, lb.	.415	.380	.440
Zinc, die casting alloy, No. 3, lb.	.475	.445	.505
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.33	16.34	16.38
Shipping sacks, ton	390.00	390.00	390.00
Solid bleached paperboard, ton	580.00	550.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	310.00	290.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.247	.237	.296
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	.940	1.045	1.040
Cotton middling, 1", N.Y., lb.	.655	.655	.595
Printcloth, 48", 80x80, N.Y., spot, yd.	.72	.70	.60
Army duck, 37", 13 oz., yd.	1.48	1.48	1.70
Blended printcloth, 64", 78x54, yd.	.765	.800	.680
20s combed yarns	1.70	2.05	1.95
Wool 64s, Staple, lb.	1.95	2.00	2.10

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.455
Ammonia, anhydrous, tankcars, Gulf Coast, ton	80.00	90.00	N.A.
Benzene, petroleum, tanks, Houston, gal.	.75	.82	1.47
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.91	.91	.91
Methanol, sny., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.52	.52	.52
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.27	.27	.27
Polyethylene resin, low density liner film grade (market place), lb.	.265	.290	.280
Polypropylene, homopolymer grade (market price), lb.	.34	.34	.33
Polystyrene, general purpose grade (market price) lb.	.31	.31	.35
Polyvinyl chloride, pipe grade (market price) lb.	.295	.285	.290
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.21	.21	.30
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	157.50	157.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	56.85
Titanium dioxide, anatase, reg., carlots lb.	.73	.73	.69
Xylene tanks, gal.	1.36	1.36	1.36
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	322.30	328.65	326.55
Lumber 2x2 pine, mbf, cl	315.85	321.60	315.75
Plywood, plyform, ¾", msf, cl	595.95	595.65	578.60
Plywood, ⅜", msf, cl	387.55	387.55	381.60
Cement, bulk, ton, tl	65.56	66.70	64.94
Sand, ton, cl	6.62	6.60	6.25
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	47.89	47.82	47.60
Crushed stone, 1½", ton, cl	7.83	7.98	7.65
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.83	0.83	0.81
Gypsum sheathing, ½"x1"x8", msf, tl	217.57	217.52	211.94
Brick, common, per thousand, tl	184.96	184.96	181.55
Asphalt paving, AC-20	150.81	158.08	175.36
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.09	7.09	7.15
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	8.50	9.35	21.50
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	13.20	15.40	25.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.430	.580	.750
Gasoline, 94 oct., reg., Chi., tank car, gal.	.404	.540	.847
Heating oil, No. 2, Chi., bulk, gal.	.355	.405	.695
Heating oil, No. 2, N.Y., bulk, gal.	.348	.395	.740
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.340	.360	.690
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.260	.270	.343
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	72.00	70.00	72.00
Steel, No. 1 hvy., dlvd., Chi., ton	70.00	70.00	64.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.540	.590	.540
Copper, No. 2, East, wholesale buy, dlvd., lb.	.460	.510	.455
Brass, red, East, wholesale buy, dlvd., lb.	.500	.550	.500
Brass, yellow, East, wholesale buy, dlvd., lb.	.300	.300	.325
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.310	.290	.285
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.330	.320	.315
Zinc, old, East, wholesale buy, dlvd., lb.	.17	.15	.14
Lead, clean solids, East, wholesale buy, dlvd., lb.	.130	.115	.100
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	20.00	15.00	10.00
Paper, old corrug. box, dlr., N.Y., ton	12.00	12.00	8.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.090	.095	.100
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.110	.110	.210

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Lists are only a starting point

Buyers have a strong hold on prices these days. Discounts and other forms of shading are more the rule than the exception. And all indications are that this situation in likely to continue into 1987.

That's the word from the majority of industrial purchasing executives responding to a new nationwide *PurchasingWorld* survey. In a nutshell, list quotes are merely the starting point for serious negotiations these days.

Most PMs agree. The just-completed *PW* survey suggests the following developments:

- **The extent of shading:** The vast majority of respondents report off-list pricing in at least some areas. And one out of every four says that 80% of major purchases are being shaded in one form or another.
- **Now vs. a year ago:** Some 28% note more shading now than a year ago—more than offsetting the 22% who find it more difficult to chip away at official lists. The fact that the remaining 50% say they're getting the same good deals as 12 months earlier can't be downplayed either.
- **Where the buys are:** Viewed from almost any perspective, deals are available for those willing to look for them. Items prominently mentioned as being discounted include steel, non-ferrous metals, plastic resins, fuel oil, petrochemicals, solvents, packaging, paper, glass, electronic parts, fasteners, hand tools, and machinery.
- **Factors behind the weakness:** Excess supplies, foreign competition, and so-so demand are all mentioned by half or more of the respondents—with close to 20% adding lack of vendor cost pressure as still another price depressant.
- **Type of concessions:** Extended price guarantees, noted by two-thirds of those queried, seem to be the most popular way of reducing tags. But cash discounts were a close second. Other tactics used to chip away at list prices (with the percentage of respondents benefitting): better terms of sale (39%), freight absorption (28%), improved servicing (28%), better-than-ordered quality (22%), and the throwing in of extras (17%).
- **The net impact:** The average discount from all of the above comes to near 7%—1% above last April when *PW* asked the same question. And about one in four now claim they are getting price breaks of over 10%.
- **A look ahead:** There's basically unanimous agreement that no basic change in the above pattern is likely for the rest of 1986. An impressive 56% don't see any change through all of 1987.

PMs, aware of their favorable bargaining position, are going all-out to keep vendors on the defensive. Asked to comment on strategy in the months ahead, almost all indicated that they'll be hanging tough—using hard-nosed bargaining to keep prices down. Survey respondents indicate that they will use such specific approaches as 1) more long-term contracts, 2) demanding detailed cost justification for all suggested increases, 3) more emphasis on just-in-time techniques to shift more of the inventory burden to suppliers, and 4) establishing closer relationships with suppliers to help pare costs.

Additional price guarantees are also high on the PM agenda. One, for example, says he has just been able to stretch such pacts out 18 months—thus locking into a price through 1987.

Some prices will inevitably rise—buyers are expecting some advances in paper, steel, petrochemicals, and possibly some electronic items. But such increases are expected to be buffered by continued discounting in other sectors. ***PW***